Indirect Cost Recovery



USING FEDERAL FUNDS TO RECOVER "INDIRECT COSTS"

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WHY ARE INDIRECT COST RATES NEEDED?



To provide a uniform method

- o Funding indirect costs
- o Charging indirect costs

To provide an equitable allocation of indirect costs across all projects

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The "Cost" of Doing Business



Direct Costs

- Federal grants fund specific activities related to meeting the goals of the project
- o Title I teacher in a Title I targeted assistance school

Indirect Costs

 Grant activities generate operational costs such as supervision and payroll, but are not directly related to conducting the grant activities

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IMPORTANT DEFINITIONS



<u>Indirect cost rate</u>: a device for determining in a reasonable manner the proportion of indirect costs each program should bear

- It is a method for allocating indirect costs to projects
- o The ratio between indirect costs (pool) and an equitable base

DEFINITIONS (cont'd)

- <u>Direct costs</u>: those costs that can be specifically identified with a particular final cost objective (for example a particular award)
- <u>Indirect costs</u>: those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective (overhead, G & A)

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Recovering Funds for Indirect Costs

- Indirect Cost Recovery: Acknowledgement by the Federal Government that federally funded programs incur more than just costs directly related to the project
 - o Depends on federal grant type
 - o Sub-recipient must have an established indirect rate
 - This rate / percentage can be applied against the federal grant to recover funds to offset it's operating costs
 - o Outlined in the Uniform Grant Guidance (2 CFR §200.414)

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Types of Direct Costs



- Teacher salary /benefits
- Professional development
- Equipment
- Transportation
- Instructional materials
- Contracted services

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General Management

(8)

Direct Costs

- Limited to one school, subject or phase of operation, including the supervision of
- o Instruction
- o Guidance
- \circ Attendance
- Transportation
- Student Services
- o Budein Bervices

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Indirect Costs

- Benefits several activities and programs, including the performance of
 - Accounting
- o Payroll
- Auditing
- o Personnel Management
- o Purchasing
- Employee Relations

General Management



- Superintendent Costs Not allowed as a direct cost on federal grants or recovered through indirect
 - o Salary / benefits or any expenditures related to the operation of the Superintendent's office
- Principal's Costs May be allowed as a direct cost on federal grants but always included as a direct cost in the restricted indirect rate calculation

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Direct or Indirect?

Can you determine actual costs generated by the program?

Certain indirect costs may be categorized as direct costs depending on how they are tracked:

- Bookkeeper
- IT Staff
- General supplies
- Copying / Printing
- Postage
- Phone

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UNALLOWABLE COSTS



Uniform Grant Guidance, Unallowable Activities:

- o Organized fund raising
- Lobbying
- o Lawsuits against the government
- o Bad debts
- Contributions and donations
- o Fines and penalties
- o Entertainment
- o Equipment and other capital expenditures

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Establishing an Indirect Rate



- · Two rates determined annually by DPI
 - O DPI's Indirect Cost Plan
 - "Restricted" and "Unrestricted" rates
 - O Based on audited financial data collected from the PI-1505 annual reports
- Department of Ed Restricted Rates (lower)
- Used for federal grants that have a supplement not supplant provision (34 CFR §76.563)

Restricted vs Unrestricted



Why the distinction?

- Certain Dept of ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds
- o Supplanting? Ambiguous concept that does not allow the use of federal funds to 'replace' otherwise local funds for certain expenditures
 - **×** Very difficult to prove this quantifiably

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Restricted vs Unrestricted



- Restricted rate is calculated by taking the unrestricted rate and modifying it so as to exclude certain maintenance and operation expenditures
- Both rates are calculated by DPI
- Most grants only allow restricted rate to be used due to non-supplanting regulations

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Indirect Cost Proposal



Formal plan and methodology for calculating rates on a consistent basis

- o Organizational review
- Tying costs to functions
- $\circ \, Submission \, of \, plan \, to \, Cognizant \, Agency \,$
- o Federal Review
- Negotiation
- o Issuance of Rate Agreement

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Indirect Cost Proposal



What does this mean for Wisconsin schools?

- o DPI establishes ICR plan for all districts
- o DPI negotiates with Dept of ED
- \circ Every 5 years the plan is resubmitted and new agreement is reached
- O Available on DPI website:
 - * http://dpi.wi.gov/sfs/aid/federal/indirect-costs

Types of Rates



- Provisional/Final
- Predetermined
- Fixed-Rate with Carry-forward**
- Temporary 'billing' rate
- **Used by WI school districts

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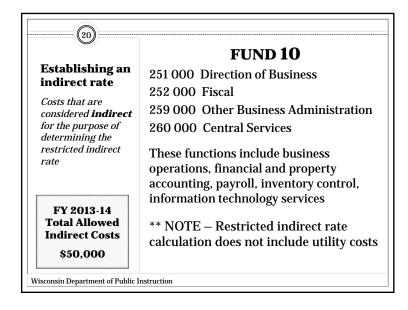
Fixed Rate with Carry-Forward Provision?



- The predetermined rate is an ICR applicable to a specified year (current fiscal year) based upon an ESTIMATE of current year costs
- Fixed Rate with Carry-Forward ICR is the same as a predetermined rate except the differences between actual and estimated costs are 'carried forward' and become part of the rate calculation currently

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Establishing an Indirect Rate · Current year's rate is based on the second preceding fiscal year's audited financial data **Restricted Indirect Rate Calculation:** FY 2013-14 FY 2013-14 FY 2015-16 **Total Allowed Total** Restricted **Direct Cost Base Indirect Costs Indirect Rate:** 6.25% \$50,000 \$800,000 Wisconsin Department of Public Instruction





Establishing an indirect rate

Costs that are considered **direct** for the purposes of determining the restricted indirect rate

> FY 2013-14 Direct Cost Base

\$800,000

FUND 10, 20, 50, 72, 80, 90

100 000 Instruction 210 000 Support Services (SS) - Pupil

220 000 SS - Instructional Staff

230 000 SS - General Administration 240 000 SS - School Bldg Admin

255 000 SS - Facilities

256 000 SS - Transportation

258 000 SS - Internal Services

270 000 SS - Insurance 290 000 SS - Other Support

430 000 SS - General Tuition Payments

These functions include wages, benefits and other direct costs BUT the calculation excludes capital equipment purchases, retirement and termination payments.

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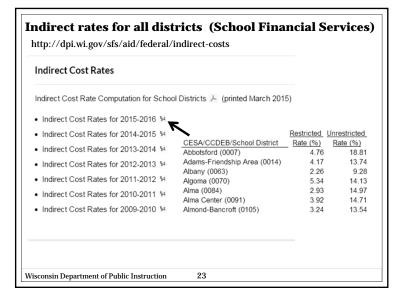
CALCULATIONS



DPI calculates rates for all districts

- For 2015-16, rates based upon audited 2013-14 Annual Report data
- $\circ \ Carry-forward\ provision\ is\ determined$
- o Form PI-1161 is submitted if adjustment to DPI calculations are requested
- $\circ \underline{\textbf{May 31}} \text{ is deadline for submitting adjustments} \\$
- DPI notifies districts of adjusted rates and posts to website in <u>early July</u>

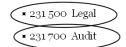
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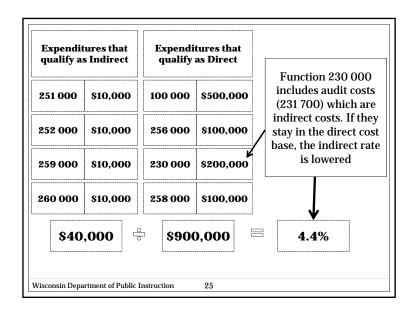
Adjustments to Increase an Indirect Rate

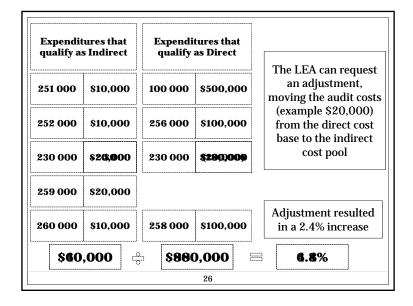


- Initial calculation pulls expenditures from high level functions, not detail
 - $\circ\,$ Examples of what is included in 230 000:
 - x 231 100 Board Members



- x 232 100 Office of the Superintendent
- x 232 900 Other District Administration





Possible Adjustments



- Legal Costs
- o Preparation of policy, interpretation of laws and regulations
- School Census Costs
- Audit costs
- District Insurance
 - o Liability
 - o Property
 - o Fidelity bond premiums
- O Worker's compensation
- Unemployment compensation

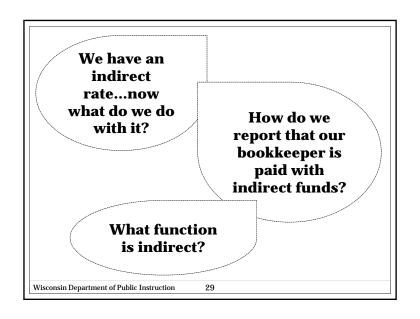
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Indirect Cost Rate Adjustment, PI-1161

http://dpi.wi.gov/sites/default/files/imce/forms/pdf/pod1161.pdf

	I. ACCOU	NT ADJUSTMENTS (Option	nal)		
Some General Funds costs can be	e considered both restricted and unrestric	ted indirect costs. Refer to d	detailed instructions in Local	Educational Agency Indirec	t Cost Plan.
Account Code	Account Name	Indirect Restricted	Indirect Unrestricted	Direct Cost	Excluded Cost
10 - 231 700	Audit	\$ 20,000	\$20,000	(\$20,000)	\$4
27 - 252 000	Fiscal	(\$ 5,000)	(\$ 5,000)	\$ 5,000	s
	Total Adjustments	\$ 15,000	\$15,000	(\$15,000)	\$0

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Why Claim Indirect?



- Costs that are by nature indirect should be covered by the indirect cost recovery — no time & effort requirement and does not restrict what the individual works on.
- Assists in reducing the amount of federal funds carried across fiscal years.
- Provides the LEA relief for indirect costs that are generated by supporting the large federal programs.

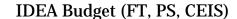
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Independent Charter School Applicability



- Independent Charter Schools are considered LEAs and, therefore, are covered by the current approved WI Indirect Cost Plan with the Dept of Education
- The 10% deminimus rate provision in the Uniform Grant Guidance will not apply
- Any Independent Charter Schools electing to utilize indirect costs will need to contact DPI to calculate rates

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Amount budgeted for Flow-Through (excludes indirect): \$576,615 Amount excluded from indirect calculation - Capital Objects: \$6,000 Amount excluded from indirect - Contract Amounts > \$25,000: Amount against which indirect costs may be calculated(Base): \$570,615 3.6700 % **Maximum Indirect Amount available:** \$20,942 \$4,565 Available funds not currently allocated: **Amount to Budget for Indirect Costs:** \$9,000 Effective Indirect Rate (Indirect Budgeted / Base Cost): 1.5772 % **Indirect Claimed to Date:** N/A

http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-idea.pdf

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Title I-A

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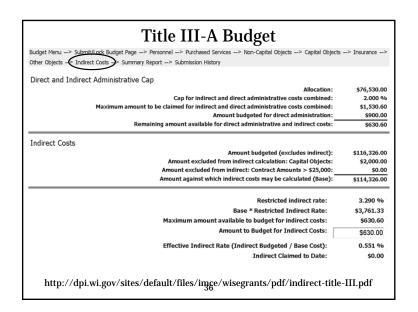
Step 1: Title I-A Budget Menu

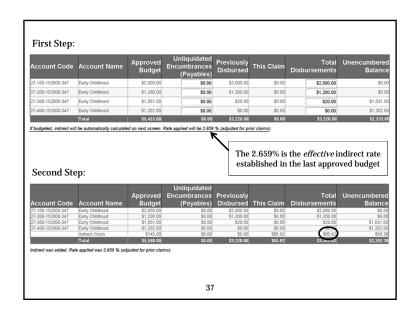
"Plan Reservations: Enter Reservations Amounts"

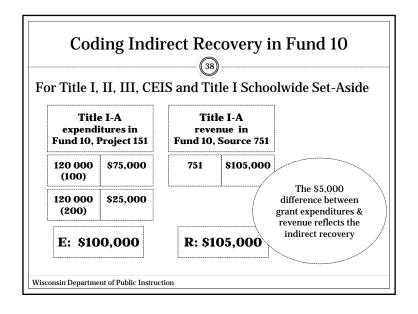
Estimated Indire	ect Costs
	Indirect Costs (Click Here to estimate indirect costs for entire budget.): \$ 0
_	<u> </u>
_	Total Budget (Allocation and Carryover): 668,987
_	Maximum percentage available for indirect costs: 2.86 %
	ESTIMATED maximum amount available for indirect costs for \$19,133 entire budget:
Wissensin Dene	urtment of Public Instruction

Title I-A Budget Submit/Lock Budget Page --> Personnel --> Purchased Services --> Non-Capital Objects --> Capital Objects --> Insurance --> Summary Report --> Submission History --> Title II Transferred Funds Budget Summary Amount budgeted (excludes indirect): \$660,048 Amount excluded from indirect calculation: Capital Objects: \$5,000 Amount excluded from indirect: Contract Amounts > \$25,000: \$0 Amount against which indirect costs may be calculated (Base): \$655,048 **Restricted Indirect Rate:** 2.86 % \$18,734.37 Maximum Indirect Amount available: Available funds not currently allocated: \$1,939 Amount to Budget for Indirect Costs: \$7,000.00 Effective Indirect Rate (Indirect Budgeted / Base Cost): 1.069 % Indirect Claimed to Date: \$0.00 http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf

Title II-A Budget Budget Menu --> Submit/Lock Budget Page --> Personnel --> Purchased Services --> Non-Capital Objects --> Insurance --> Other Objects --> Indirect Costs -> Summary Report --> Submission History --> Title II Transferred Funds Budget Summary Direct and Indirect Administrative Cap Allocation - T2 Transfer \$337,695.00 Cap for indirect and direct administrative costs combined: 5.000 % Maximum amount to be claimed for indirect and direct administrative costs combined: \$16,884.75 Amount budgeted for direct administration \$2,500.00 \$14,384.75 Indirect Costs \$332,195.00 Amount budgeted (excludes indirect): Amount excluded from indirect calculation: Capital Objects: \$0.00 Amount excluded from indirect: Contract Amounts > \$25,000: \$0.00 Amount against which indirect costs may be calculated (Base): \$332,195.00 Restricted indirect rate: 3.290 % Base * Restricted Indirect Rate: \$10,929.22 Maximum amount available to budget for indirect costs: \$10,929.22 Amount to Budget for Indirect Costs: \$8,000.00 Effective Indirect Rate (Indirect Budgeted / Base Cost): 2.408 % Indirect Claimed to Date: \$0.00 http://dpi.wi.gov/sites/default/files/imge/wisegrants/pdf/indirect-title-II.pdf







Coding Indirect Recovery in Fund 27

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For flow-through and preschool

Record Indirect Revenue Received from DPI

Fund	Туре	Object / Source	Function	Debit	Credit
27	В		711 100	\$XX.XX	
27	R	730			\$XX.XX

Record Indirect Cost Transfer Between Funds

Credit	Debit	Function	Object / Source	Туре	Fund
	\$XX.XX	418 000	810	E	27
\$XX.XX		711 100		В	27
			·		
	\$XX.XX	711 100		В	10

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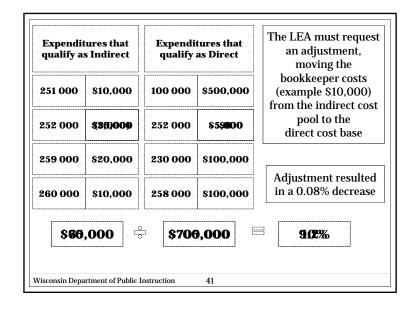
Charging Bookkeepers as a Direct Grant Cost



Allowed for some grants (such as IDEA) — if the individual keeps appropriate time and effort records.

BUT

If the LEA plans to claim indirect recovery, and the LEA charged a normally indirect cost as a direct cost on the grant in the year the indirect rate is based, the LEA is required to report an adjustment and subtract the amount of costs charged to the federal grant from the indirect cost pool.



Indirect in WISEgrants



- Similar to the current application for the method of budgeting indirect.
- For claiming, LEAs will be able to control the amount of indirect requested each claim, up to the eligible amount generated. LEAs will also have the option of reversing an indirect amount previously claimed (and moving the claimed amount to another direct line item).

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Recovering Indirect through the Federal Grant Budget Software

IDEA, Title I, II and III

Technical Assistance Documents with step-by-step instructions, including screen shots:

IDEA: http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-idea.pdf

Title I: http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf

Title II: http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-

II.pdf

Title III: http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-

III.pdf

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Technical Assistance

School Financial Services Indirect Page:

http://sfs.dpi.wi.gov/sfs_indirect

Gene Fornecker, 608/267-7882 eugene.fornecker@dpi.wi.gov

Federal Grant Indirect Overview:

http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-fed.pdf

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